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TO RUEHC/SECSTATE WASHDC 7467
INFO RUEHBJ/AMEMBASSY BEIJING 2389
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DOC FOR ITA - DAS KASOFF, MELCHER, OCEA-SZYMANSKI
TREASURY FOR OASIA/INA CUSHMAN, WINSHIP
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E.O. 12958: N/A

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SUBJECT: LEADING INDIAN IT COMPANIES IN SHANGHAI IMPACTED BY GLOBAL ECONOMIC SLOWDOWN

REF: 07 SHANGHAI 785

¶1. (SBU) Summary: Major Indian IT outsourcing firms in Shanghai said their China businesses have been hit hard by the global economic downturn, as multinational and domestic clients cancel or defer projects. The boom of recent years has come to a screeching halt, with revenue growth falling short of expectations, especially in the second half of 2008. The firms have "no idea" what is in store for 2009. Although a couple of interlocutors see a silver lining - declining attrition rates and a potential pool of new clients forced to outsource in the downturn - they are clearly disappointed by this year's results and are taking a "wait and see" approach, much like their clients, with no plans to expand operations in China in the near future. End summary.

¶2. (U) In November and December 2008, Econoff spoke with top Shanghai-based managers of three Indian IT firms about the impact of the global economic downturn on their China businesses. All three firms - Wipro, Satyam, and Tata Consultancy Services (TCS) - provide business process outsourcing (BPO) and IT services to multinational and Chinese firms operating in China. This was a follow-up to discussions in December 2007 to assess how the downturn has altered plans and outlook from last year. (See reftel).

Sharp Slowdown in 2H 2008

¶3. (SBU) The managers of all three firms said growth has been slower than expected this year, particularly in the second half of 2008. They attributed the slowdown to the global economic downturn, which has impacted both their multinational and Chinese domestic clients. Kevin Ho, General Manager of Wipro, observed his clients have become "clearly more cost conscious" in recent months, and his firm has had to adjust to this increasingly "cost-sensitive environment." One of the ways his company adjusted was by opening a new office this year in

Chengdu (the capital of Sichuan Province in Western China) which, according to Ho, enjoys lower labor costs, a decent pool of skilled labor, and good infrastructure. Wipro's Shanghai office, its China headquarters, will remain an important sales and marketing center, but many of its IT services will shift to Chengdu, Ho said.

¶4. (SBU) Raghvendra Tripathi, China Head of Satyam, said his firm experienced 60 percent growth from 2006 to 2007 but that year-on-year (YOY) growth in 2008 will only be 20 percent. He said Q1 2008 revenues were up YOY but that growth stalled in the second and third quarters, calling the economic downturn "obvious" and noting that business "clearly started going down" after the collapse of Lehman Brothers in September. He observed that multinationals and Chinese clients all began cutting costs and canceling or deferring projects in the second half of 2008 in an attempt to conserve cash. According to Tripathi, SME clients are especially struggling as "banks have money but are not lending to smaller companies." Tripathi also mentioned that Satyam's Hong Kong operations have been hit particularly hard, as most of their clients are financial firms.

¶5. (SBU) Anantha Murthy, General Manager of Tata Consultancy Services (TCS), said his company's revenue in China had grown 100 percent annually the past few years. However, he expects growth to be 40 percent in 2008, saying it is "still okay, but much less than expected." (Note: Murthy told Econoff in December 2007 that he expected 100 percent revenue growth in ¶2008. See ref tel. End note.) Like Tripathi, Murthy said several big projects were deferred or canceled in the latter part of this year, many by U.S. firms which constitute 60 percent of his clients. The loss of some financial clients, like Lehman, also hurt TCS's bottom line, said Murthy.

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"No Idea" What 2009 Will Bring

¶6. (SBU) Tripathi and Murthy said they have "no idea" what is in store for 2009, as most of their clients are in a "wait-and-see mode." Only Ho of Wipro ventured to forecast 30 percent YOY revenue growth in 2009, though he admitted this is far from certain. None of the interlocutors expressed any plans to expand their China operations. They do not plan to open new offices in the foreseeable future, and the hiring of new employees has slowed, they said. In conversations with Econoff in late 2007, Tripathi had said Satyam planned to have 2000 employees by 2010, up from 700 in 2007 (Ref). Satyam currently has 900 employees in China, and Tripathi projects that only 100-200 more positions will be added to their new Nanjing office, which was originally scheduled to open in early 2008 but, for various "technical" reasons, did not open until late ¶2008. He does not know if there will be any further hiring after that. Murthy of TCS also said his company's original plan (as of late 2007) was to have 1700 employees throughout China by 2008 and 3500 by 2009. However, the economic downturn has derailed these plans: TCS now has 1300 employees and expects to grow to 2500 by the end of next year, well short of original plans.

Not All Gloom and Doom

¶7. (SBU) The interlocutors offered varying assessments of their future business in China. Tripathi of Satyam was the most pessimistic, saying he has a "cautious" outlook on China. He sees greater opportunity for growth in the Middle East and other relatively untapped regions. Ho of Wipro, on the other hand, is more bullish on the China market. Aside from his optimistic forecast for growth next year, he thinks China offers the most long-term growth potential of any developing region, as long as companies can take advantage of lower costs in the inner provinces without sacrificing quality of service. He also sees a silver lining in the economic downturn. He thinks the market slowdown has created a fear of unemployment, even among skilled workers in Shanghai, leading to a decline in the rate of attrition. "More people are staying in their jobs and are not

moving around as much as before," he said. (Note: In discussions in late 2007, one of the chief complaints from Indian IT firms was the high rate of attrition among skilled workers, especially in Shanghai, who were in high demand and could easily bounce from company to company in search of higher pay. See reftel. End note).

18. (SBU) Murthy of TCS said the economic downturn, though painful in the short-run, is also an opportunity to lure new clients who are looking to cut costs through outsourcing. He said TCS is specifically targeting Japanese firms which, in the past, were reluctant to outsource services but are now faced with cost-cutting demands. According to Murthy, TCS set up an office with 500 employees in Tianjin this year, mainly to service Japanese firms operating in China. Murthy is optimistic that TCS's strong brand name and reputation will allow it to retain major clients and win new clients even in the current downturn.

Comment

19. (SBU) The negative sentiment among our interlocutors is similar to what we have heard from other contacts in the IT services and manufacturing sectors about the impact of the global economic downturn. Although Ho and Murthy tried to put a positive spin on the current situation, all the interlocutors were clearly disappointed by their companies' performance in China in 2008. With no end in sight to the current economic

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downturn, these companies are struggling to formulate projections for the years ahead. Like their clients, they are adopting a "wait-and-see" approach until the dust settles.

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